

**REPORT OF THE AUDIT OF THE
MONTGOMERY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MONTGOMERY COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Montgomery County Fiscal Court for fiscal year ended June 30, 2004.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Montgomery County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Montgomery County's major federal programs, Small Business Administration – Clay Community Center and VA-HUD EDI Special Projects Grant, for the year ended June 30, 2004.

Financial Condition:

The fiscal court had net assets of \$6,324,947 as of June 30, 2004. The fiscal court had unrestricted net assets of \$2,393,269 in its governmental activities as of June 30, 2004, with total net assets of \$6,273,404. In its enterprise fund, total net cash, which was all unrestricted, was \$51,543. The fiscal court had total debt principal as of June 30, 2004 of \$1,205,718 with \$156,327 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Banford D. Wilson, Jr., Montgomery County Judge/Executive
Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Montgomery County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Montgomery County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
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The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montgomery County, Kentucky's basic financial statements. The accompanying supplementary information and combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of federal expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2004, on our consideration of Montgomery County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 5, 2004

MONTGOMERY COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Banford D. Wilson, Jr.	County Judge/Executive
Lloyd G. Cassidy	Commissioner
S. Norman Lansdale	Commissioner
Frank M. Sponcil	Commissioner

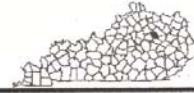
Other Elected Officials:

Paul D. Cowden	County Attorney
Everett D. Myers	Jailer
Judy L. Witt	County Clerk
Connie Curtis	Circuit Court Clerk
Fred D. Shortridge	Sheriff
Vacant (*)	Property Valuation Administrator
Wallace Johnson	Coroner

Appointed Personnel:

Forrest Brown	County Treasurer
Brenda L. Jackson	Finance Officer
Barbara Reynolds	Occupational Tax Collector

(*) Jeffrey Garrison, former Property Valuation Administrator, retired May 31, 2004. John Peters was serving as interim Property Valuation Administrator at June 30, 2004.



Management's Discussion and Analysis June 30, 2004

The financial management of Montgomery County, Kentucky offers readers of Montgomery County's financial statements this narrative overview and analysis of the financial activities of Montgomery County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Montgomery County had net assets of \$6,324,947 as of June 30, 2004. The fiscal court had unrestricted net assets of \$2,393,269 in its governmental activities as of June 30, 2004. The enterprise fund had unrestricted net assets of \$51,543 as of June 30, 2004. Total debt for governmental funds principal as of June 30, 2004 was \$1,205,718 with \$156,327 due within one year.
- At the close of the current fiscal year, Montgomery County governmental funds reported combined ending fund balances of \$2,144,540. Of this amount \$2,012,991 is available for spending at the government's discretion (unreserved fund balance).
- Montgomery County's total indebtedness at the close of fiscal year June 30, 2004, was \$1,205,718, of which \$1,049,391 is long-term debt (due after one year) and \$156,327 is short-term debt (to be paid within one year). No new debt was incurred and \$149,650 was reduced from total debt during fiscal year 2004. This decrease represents regular payments on notes payable during the year.
- At June 30, 2004, the unreserved fund balance for the General Fund was \$1,256,218 which equals approximately 28% of normal annual expenditures for this Fund. Also, the unreserved fund balance for the Health/CI Fund was \$201,801, which represents approximately 200% of normal annual expenditures for this fund.
- Montgomery County completed a capital project on the courthouse annex, the purchase and installation of two HVAC units, at a cost of \$36,380 and purchased two vehicles for the Road Department at a cost of \$41,265 in fiscal year 2004. These projects were accomplished with no additional debt.
- During the 2004 fiscal year Montgomery County received two grants from the U.S. Department of Housing and Urban Development totaling \$710,711 and one grant from the Small Business Administration for \$344,000. These grants were used to purchase furniture and equipment for the Clay Community Center.

**Montgomery County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Overview of the Financial Statements. This management discussion and analysis is intended to serve as an introduction to Montgomery County's basic financial statements. Montgomery County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Montgomery County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Montgomery County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator as to the improvement or deterioration of Montgomery County's financial position.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under Montgomery County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction. An exception occurs for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of Montgomery County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Montgomery County's governmental activities include general government, protection to persons and property, roads, recreation, and social services. The County has only one business type activity – the operation of a jail canteen.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Montgomery County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Montgomery County can be divided into two broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

**Montgomery County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Government Funds. (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Montgomery County maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, and Revolving Loan Fund, all of which are considered major funds by the County. The Local Government Economic Assistance Fund, Juvenile Fund, Emergency Food and Shelter Fund, Health and Civic Center Fund, and Finneran Fund are considered non-major funds and are represented in a combined form.

Montgomery County adopts an annual appropriated budget for its major funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the County's Funds.

As noted earlier, Montgomery County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Montgomery County governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of the end of the June 30, 2004 fiscal year, the combined ending fund balance of Montgomery County's governmental funds was \$2,144,540. Approximately 93.9% (\$2,012,991) of this amount consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder (\$131,549) is reserved and therefore not available.

Montgomery County has four (4) major governmental funds. These are:

- 1.) General Fund;
- 2.) Road Fund;
- 3.) Jail Fund;
- 4.) Revolving Loan Fund.

**Montgomery County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of the County's Funds. (Continued)

In addition to the major funds there are five (5) non-major governmental funds:

- 1.) Local Government Economic Assistance Fund (L.G.E.A.)
 - 2.) Juvenile Fund
 - 3.) Emergency Food and Shelter Fund
 - 4.) Health/Civic Center Fund
 - 5.) Finneran Fund
-
1. The General Fund is the chief operating fund of Montgomery County. At the end of the June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$1,256,218, and total fund balance was \$1,262,706. The single largest source of revenue into the General Fund was from Occupational tax revenues, which totaled \$1,895,569 or approximately 45% of the total of General Fund Revenue. The County distributes 50% of the Occupational tax revenues to the City of Mount Sterling. Montgomery County received \$500,419 from Real Property tax revenues. Likewise, 50% of this amount was distributed to the city of Mount Sterling. \$1,088,336 was received in the form of Federal grants in fiscal year 2004, with \$1,054,711 going to the Clay Community Center for the purchase of furniture and equipment. The remaining portion of General Fund revenue is composed from various other taxes and service fees.
 2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund received \$891,177 from the State of Kentucky in revenue during fiscal year 2004. This amount represented approximately 63% of total expenditures for the year. The Road Fund also received \$292,909 from the General Fund during fiscal year 2004.
 3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance as of June 30, 2004 of \$22,404, all of which was reserved. The jail received \$528,051 from the State for operations and for housing various state prisoners during the fiscal year. This represents a decrease in the amount of \$58,500 in payments received from the State last year. The jail also received \$430,915 through contracts with other counties to house prisoners during the year, which is approximately the same amount received in the previous fiscal year. The General Fund contributed \$336,428 to the jail operations.
 4. The Revolving Loan Fund was established to assist local businesses, through loans to qualifying applicants, and is intended to stimulate the local economy through successful private enterprise. As of June 30, 2004 Montgomery County had two (2) existing loans outstanding. The balance of the principal amount due on the loans at June 30, 2004 was \$248,729. The County also maintained a cash balance in this Fund of \$338,161.
 5. The Local Government Economic Assistance (L.G.E.A.) Fund consists of revenue received for two (2) purposes - Coal Impact and Mineral Tax. The total revenue received for the fiscal year ending June 30, 2004 was \$64,535, a decrease of \$7,128 or 10% from the previous fiscal year.
 6. The Juvenile Fund is used to account for expenditures necessary for transportation and lodging juveniles placed by the court system. Total expenditures were \$28,063, with total revenues received from the General Fund.

**Montgomery County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of the County's Funds. (Continued)

7. The Emergency Food and Shelter Fund is used to assist needy citizens in paying for rent and utility expenses. Revenue is generated from a Federal Grant and payments are made until the grant funds are expended. Total receipts for fiscal year 2004 into this fund were \$16,805.
8. The Health-Civic Center Fund accounts for the operation of the Civic Center. Revenues are generated primarily from rent for the use of space in the facility. Total revenue for the fiscal year ending June 30, 2004 was \$150,625, an increase of approximately 4.5% from the prior year.
9. The Finneran Fund is utilized to help maintain the senior citizens center in Mount Sterling. Revenue is generated entirely from a \$75,000 certificate of deposit.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Montgomery County has only one (1) enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net assets of \$51,543 as of June 30, 2004 comprised entirely of cash.

Budgetary Highlights.

The County's original budget was amended during the fiscal year increasing the operating budget by \$2,562,869. Budget amendments were made in several areas due to an increase in borrowed money from the Kentucky Association of Counties Advance Revenue Program (KARP), Federal grants, and county road aid.

Actual operating revenues were \$2,772,632 more than the amount *originally* budgeted by the Montgomery County Fiscal Court. This increase was primarily due from loans, grants, and tax revenues.

Requests For Information.

This financial report is designed to provide a general overview of Montgomery County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Montgomery County Treasurer, P.O. Box 690, (44 West Main Street), Mount Sterling, KY 40353.

MONTGOMERY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

MONTGOMERY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,144,540	\$ 51,543	\$ 2,196,083
Notes Receivable	77,734		77,734
Total Current Assets	<u>2,222,274</u>	<u>51,543</u>	<u>2,273,817</u>
Noncurrent Assets:			
Notes Receivable	170,995		170,995
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	584,000		584,000
Buildings	3,649,662		3,649,662
Other Equipment	146,776		146,776
Vehicles and Equipment	166,136		166,136
Infrastructure Assets - Net of Depreciation	539,279		539,279
Total Noncurrent Assets	<u>5,256,848</u>		<u>5,256,848</u>
Total Assets	<u>7,479,122</u>	<u>51,543</u>	<u>7,530,665</u>
LIABILITIES			
Current Liabilities:			
Revenue Bond	37,747		37,747
Financing Obligations	118,580		118,580
Total Current Liabilities	<u>156,327</u>		<u>156,327</u>
Noncurrent Liabilities:			
Revenue Bond	537,629		537,629
Financing Obligations	511,762		511,762
Total Noncurrent Liabilities	<u>1,049,391</u>		<u>1,049,391</u>
Total Liabilities	<u>1,205,718</u>		<u>1,205,718</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,880,135		3,880,135
Unrestricted	2,393,269	51,543	2,444,812
Total Net Assets	<u>\$ 6,273,404</u>	<u>\$ 51,543</u>	<u>\$ 6,324,947</u>

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,241,849	\$ 194,059	\$ 1,357,911	\$
Protection to Persons and Property	1,562,862	968,726	208,817	
General Health and Sanitation	301,791	99,685	45,734	
Social Services	91,503		16,805	
Recreation and Culture	80,313			
Transportation Facilities and Services	7,515			
Roads	777,533		1,175,395	
Airports	25,000			
Interest on Long-Term Debt	62,820			
Capital Projects	2,763			
Total Governmental Activities	7,153,949	1,262,470	2,804,662	
Business-type Activities:				
Jail Canteen Fund	152,105	170,955		
Total Business-type Activities	152,105	170,955		
Total Primary Government	\$ 7,306,054	\$ 1,433,425	\$ 2,804,662	\$ 0

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,689,879)	\$	\$ (2,689,879)
(385,319)		(385,319)
(156,372)		(156,372)
(74,698)		(74,698)
(80,313)		(80,313)
(7,515)		(7,515)
397,862		397,862
(25,000)		(25,000)
(62,820)		(62,820)
(2,763)		(2,763)
(3,086,817)		(3,086,817)
	18,850	18,850
	18,850	18,850
(3,086,817)	18,850	(3,067,967)
500,419		500,419
78,615		78,615
132,104		132,104
2,607,750		2,607,750
222,881		222,881
80,662		80,662
131,437		131,437
3,753,868		3,753,868
667,051	18,850	685,901
5,606,353	32,693	5,639,046
\$ 6,273,404	\$ 51,543	\$ 6,324,947

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

MONTGOMERY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Revolving Loan Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 1,262,706	\$ 237,452	\$ 22,404	\$ 338,161
Total Assets	<u>\$ 1,262,706</u>	<u>\$ 237,452</u>	<u>\$ 22,404</u>	<u>\$ 338,161</u>
 FUND BALANCES				
Reserved for:				
Encumbrances	\$ 6,488	\$ 102,417	\$ 22,404	\$
Unreserved:				
General Fund	1,256,218			
Special Revenue Fund		135,035		338,161
Total Fund Balances	<u>\$ 1,262,706</u>	<u>\$ 237,452</u>	<u>\$ 22,404</u>	<u>\$ 338,161</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 283,817</u>	<u>\$ 2,144,540</u>
<u>\$ 283,817</u>	<u>\$ 2,144,540</u>

\$ 240	\$ 131,549
	1,256,218
<u>283,577</u>	<u>756,773</u>
<u>\$ 283,817</u>	<u>\$ 2,144,540</u>

Total Fund Balances	\$ 2,144,540
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	8,576,591
Accumulated Depreciation	(3,490,738)
Notes Receivable	248,729
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due Within One Year- Revenue Bond and Other Financing Obligations	(156,327)
Due In More Than One Year - Revenue Bond and Other Financing Obligations	<u>(1,049,391)</u>
Net Assets Of Governmental Activities	<u>\$ 6,273,404</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Revolving Loan Fund</u>
REVENUES				
Taxes	\$ 3,318,888	\$	\$	\$
Excess Fees	222,881			
Licenses and Permits	114,594			
Intergovernmental	1,400,190	1,110,860	1,038,794	
Charges for Services			95,917	
Miscellaneous	126,385	1,095	23,537	70,230
Interest	71,433		223	6,280
Total Revenues	<u>5,254,371</u>	<u>1,111,955</u>	<u>1,158,471</u>	<u>76,510</u>
EXPENDITURES				
General Government	2,517,162			
Protection to Persons and Property	311,938		1,157,384	
General Health and Sanitation	186,680			
Social Services	74,698			
Recreation and Culture	80,313			
Transportation Facilities and Services		7,515		
Roads		1,247,989		
Airports	25,000			
Debt Service	131,586		80,884	
Capital Projects				
Administration	1,194,574	149,360	256,630	73,248
Total Expenditures	<u>4,521,951</u>	<u>1,404,864</u>	<u>1,494,898</u>	<u>73,248</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>732,420</u>	<u>(292,909)</u>	<u>(336,427)</u>	<u>3,262</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		530,361	351,766	
Transfers To Other Funds	(910,190)			
Total Other Financing Sources (Uses)	<u>(910,190)</u>	<u>530,361</u>	<u>351,766</u>	
Net Change in Fund Balances	(177,770)	237,452	15,339	3,262
Fund Balances - Beginning	1,440,476		7,065	334,899
Fund Balances - Ending	<u>\$ 1,262,706</u>	<u>\$ 237,452</u>	<u>\$ 22,404</u>	<u>\$ 338,161</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 3,318,888
	222,881
	114,594
127,074	3,676,918
17,238	113,155
85,679	306,926
2,726	80,662
<u>232,717</u>	<u>7,834,024</u>
	2,517,162
28,063	1,497,385
86,451	273,131
16,805	91,503
	80,313
	7,515
64,535	1,312,524
	25,000
	212,470
2,763	2,763
14,290	1,688,102
<u>212,907</u>	<u>7,707,868</u>
<u>19,810</u>	<u>126,156</u>
28,063	910,190
	(910,190)
<u>28,063</u>	
47,873	126,156
235,944	2,018,384
<u>\$ 283,817</u>	<u>\$ 2,144,540</u>

The accompanying notes are an integral part of the financial statements.

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**MONTGOMERY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

**MONTGOMERY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	126,156
--	----	---------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		648,314
Depreciation Expense		(244,045)
Notes Receivable Principal Received		(13,024)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations		114,154
Bond Payments		35,496

Change in Net Assets of Governmental Activities	\$	667,051
---	----	---------

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MONTGOMERY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

MONTGOMERY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 51,543
Total Assets	<u>51,543</u>
Net Assets	
Unrestricted	51,543
Total Net Assets	<u><u>\$ 51,543</u></u>

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 170,955
Total Operating Revenues	<u>170,955</u>
Operating Expenses	
Cost of Sales	96,706
Educational and Recreational	25,271
Miscellaneous	<u>30,128</u>
Total Operating Expenses	<u>152,105</u>
Operating Income	<u>18,850</u>
Change In Net Assets	18,850
Total Net Assets - Beginning	<u>32,693</u>
Total Net Assets - Ending	<u><u>\$ 51,543</u></u>

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 155,751
Cost of Sales	(96,706)
Educational and Recreational	(25,271)
Miscellaneous	102
Net Cash Provided By Operating Activities	<u>33,876</u>
Cash Flows From Noncapital Financing Activities	
Inmate Refunds on Accounts	<u>(15,026)</u>
Net Cash Used By Noncapital Financing Activities	<u>(15,026)</u>
Net Increase in Cash and Cash Equivalents	18,850
Cash and Cash Equivalents - July 1, 2003	<u>32,693</u>
Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 51,543</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 18,850
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Change in Inmate Accounts	<u>15,026</u>
Net Cash Provided By Operating Activities	<u><u>\$ 33,876</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Montgomery County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, as amended by GASB 39, there are no component units which merit consideration as part of the reporting entity.

Kentucky law provides for election of the officials below from the geographic area constituting Montgomery County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

Additional – Montgomery County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund and therefore is considered Special Revenue Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund and therefore is considered a Special Revenue Fund.

Revolving Loan Fund - This fund was established to assist local businesses, through loans to qualifying applicants, and is intended to stimulate the local economy through successful private enterprise. It is considered a Special Revenue Fund.

The government also has the following non-major funds: Local Government Economic Assistance Fund (LGEA), Juvenile Fund, Emergency Food and Shelter Fund, Health and Civic Center Fund, and Finneran Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) October 1, due at discount October 30, due at face value December 30, delinquent January 1 following assessment, and subject to lien and sale April 30 following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The government's capitalization policy established a threshold of \$5,000 for all capital assets.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Buildings Improvements	\$ 5,000	10-60
Machinery & Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 5,000	10-50

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

I. Jointly Governed Organization

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Mount Sterling/Montgomery County Airport meets the criteria noted above and is disclosed as an organization jointly governed by the city of Mount Sterling and Montgomery County.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

Note 3. Notes Receivable

- A.** The county loaned \$600,000 to Thornberry Enterprises, Inc. on September 22, 1994, for the purpose of constructing a wood products manufacturing facility. Terms of the agreement stipulate a ten-year repayment schedule at 3.0 percent interest. Thornberry Enterprises, Inc. is in substantial compliance with the terms of the agreement. As of June 30, 2004, the principal balance due was \$199,227.
- B.** The county loaned \$50,000 to Cabin Hill Properties, LLC, on May 4, 2004. Terms of the agreement stipulate a seven-year repayment schedule at 5.0 percent interest. As of June 30, 2004, the principal balance due was \$49,502.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 584,000	\$	\$	\$ 584,000
Total Capital Assets Not Being Depreciated	584,000			584,000
Capital Assets, Being Depreciated:				
Buildings	6,072,821			6,072,821
Other Equipment	378,730	8,000		386,730
Vehicles and Equipment	892,726	78,565		971,291
Infrastructure		561,749		561,749
Total Capital Assets Being Depreciated	7,344,277	648,314		7,992,591
Less Accumulated Depreciation For:				
Buildings	(2,304,450)	(118,709)		(2,423,159)
Other Equipment	(204,917)	(35,037)		(239,954)
Vehicles and Equipment	(737,326)	(67,829)		(805,155)
Infrastructure		(22,470)		(22,470)
Total Accumulated Depreciation	(3,246,693)	(244,045)		(3,490,738)
Total Capital Assets, Being Depreciated, Net	4,097,584	404,269		4,501,853
Governmental Activities Capital Assets, Net	\$ 4,681,584	\$ 404,269	\$ 0	\$ 5,085,853

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 44,585
Protection to Persons and Property	102,777
General Health and Sanitation	28,660
Roads, Including Depreciation of General Infrastructure Assets	68,023
Total Depreciation Expense - Governmental Activities	<u>\$ 244,045</u>

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$3,980,885 of revenue bonds at various interest rates, of which the county has agreed to pay \$961,340 principal and a proportional share of interest on the issue to be paid in full on October 1, 2014. Revenue bonds outstanding as of June 30, 2004, totaled \$575,376. Debt service requirements due for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 37,747	\$ 35,287
2006	40,140	32,818
2007	42,686	30,192
2008	45,392	27,400
2009	48,271	24,430
2010-2014	291,335	70,582
2015	69,805	2,213
Totals	<u>\$ 575,376</u>	<u>\$ 222,922</u>

Note 6. Long-term Debt

A. Courthouse Annex Renovation

The county entered into a lease purchase agreement on June 2, 1995, with the Kentucky Association of Counties Leasing Trust for renovation of the courthouse annex. The original principal was \$750,000. On May 7, 2001, the lease purchase agreement was restructured. The new lease stipulates a term of 4 years and an interest rate of 3.56%. The lease will terminate January 20, 2005. As of June 30, 2004, the principal outstanding was \$89,000. Debt service requirements due for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	<u>\$ 89,000</u>	<u>\$ 2,252</u>

B. Industrial Park Expansion

The county entered into a lease purchase agreement on March 25, 2002, with the Kentucky Association of Counties Leasing Trust for the purchase of land for the expansion of the industrial park. The principal amount was \$499,000. Interest payments are due monthly at a variable interest rate between 3.25% and 2.175% for five years. The principal amount of \$499,000 is due on March 20, 2007. As of June 30, 2004, the principal outstanding was \$499,000. Debt service requirements due for the remaining years are:

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-term Debt (Continued)

B. Industrial Park Expansion (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$	\$ 10,853
2006		10,853
2007	499,000	8,145
Totals	<u>\$ 499,000</u>	<u>\$ 29,851</u>

C. Sheriff's Office Vehicles

The county entered into a lease purchase agreement on November 19, 2002, with Farmers Bank and Capital Trust Company for the purchase of three vehicles for the Montgomery County Sheriff's Office. The principal amount was \$64,910 and the lease stipulates a term of 36 months. As of June 30, 2004, the principal outstanding was \$31,721. Debt service requirements due for remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 22,160	\$ 1,072
2006	9,561	119
Totals	<u>\$ 31,721</u>	<u>\$ 1,191</u>

D. Vehicle

The county entered into a lease purchase agreement on November 19, 2002, with Farmers Bank and Trust Company for the purchase of a vehicle. The principal amount was \$21,734 and the lease stipulates a term of 36 months. As of June 30, 2004, the principal outstanding was \$10,621. Debt service requirements due for remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 7,420	\$ 359
2006	3,201	40
Totals	<u>\$ 10,621</u>	<u>\$ 399</u>

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-term Debt (Continued)

E. Changes In Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 610,872	\$	\$ 35,496	\$ 575,376	\$ 37,747
Financing Obligations	744,496		114,154	630,342	118,580
Governmental Activities					
Long-term Liabilities	<u>\$ 1,355,368</u>	<u>\$ 0</u>	<u>\$ 149,650</u>	<u>\$ 1,205,718</u>	<u>\$ 156,327</u>

Note 7. Short-term Debt

Changes In Short-term Liabilities

In July 2003, Montgomery County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$3,061,100, with the principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$19,549.

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2004, Montgomery County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of \$3,326,216 due to capital assets previously not reported. There is no change to business type activities.

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MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 3,145,700	\$ 3,145,700	\$ 3,318,888	\$ 173,188
Excess Fees	66,550	66,550	222,881	156,331
Licenses and Permits	84,000	84,000	114,594	30,594
Intergovernmental Revenue	1,020,800	1,879,457	1,400,190	(479,267)
Miscellaneous	97,460	97,460	126,385	28,925
Interest	45,000	45,000	71,433	26,433
Total Revenues	<u>4,459,510</u>	<u>5,318,167</u>	<u>5,254,371</u>	<u>(63,796)</u>
EXPENDITURES				
General Government	2,144,149	2,895,860	2,517,162	378,698
Protection to Persons and Property	238,789	325,735	311,938	13,797
General Health and Sanitation	229,711	229,711	186,680	43,031
Social Services	84,400	84,400	74,698	9,702
Recreation and Culture	87,000	87,000	80,313	6,687
Airports	25,000	25,000	25,000	
Debt Service	109,038	129,038	131,586	(2,548)
Administration	1,794,497	1,794,497	1,194,574	599,923
Total Expenditures	<u>4,712,584</u>	<u>5,571,241</u>	<u>4,521,951</u>	<u>1,049,290</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(253,074)</u>	<u>(253,074)</u>	<u>732,420</u>	<u>985,494</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(1,046,926)	(1,046,926)	(910,190)	136,736
Total Other Financing Sources (Uses)	<u>(1,046,926)</u>	<u>(1,046,926)</u>	<u>(910,190)</u>	<u>136,736</u>
Net Changes in Fund Balance	(1,300,000)	(1,300,000)	(177,770)	1,122,230
Fund Balance - Beginning	<u>1,300,000</u>	<u>1,300,000</u>	<u>1,440,476</u>	<u>140,476</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,262,706</u>	<u>\$ 1,262,706</u>

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 612,163	\$ 1,055,275	\$ 1,110,860	\$ 55,585
Miscellaneous	10,000	10,000	1,095	(8,905)
Total Revenues	622,163	1,065,275	1,111,955	46,680
EXPENDITURES				
Transportation Facilities and Services	38,000	38,000	7,515	30,485
Roads	936,663	1,379,775	1,247,989	131,786
Administration	172,500	172,500	149,360	23,140
Total Expenditures	1,147,163	1,590,275	1,404,864	185,411
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(525,000)	(525,000)	(292,909)	232,091
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	525,000	525,000	530,361	5,361
Total Other Financing Sources (Uses)	525,000	525,000	530,361	5,361
Net Changes in Fund Balance			237,452	237,452
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 237,452	\$ 237,452

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 996,500	\$ 996,500	\$ 1,038,794	\$ 42,294
Charges for Services	105,000	105,000	95,917	(9,083)
Miscellaneous	47,000	47,000	23,537	(23,463)
Interest	100	100	223	123
Total Revenues	<u>1,148,600</u>	<u>1,148,600</u>	<u>1,158,471</u>	<u>9,871</u>
EXPENDITURES				
Protection to Persons and Property	1,190,070	1,182,292	1,157,384	24,908
Debt Service	73,106	80,884	80,884	
Administration	363,350	363,350	256,630	106,720
Total Expenditures	<u>1,626,526</u>	<u>1,626,526</u>	<u>1,494,898</u>	<u>131,628</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(477,926)</u>	<u>(477,926)</u>	<u>(336,427)</u>	<u>141,499</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>477,926</u>	<u>477,926</u>	<u>351,766</u>	<u>(126,160)</u>
Total Other Financing Sources (Uses)	<u>477,926</u>	<u>477,926</u>	<u>351,766</u>	<u>(126,160)</u>
Net Changes in Fund Balance			15,339	15,339
Fund Balance - Beginning			<u>7,065</u>	<u>7,065</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 22,404</u>	<u>\$ 22,404</u>

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ 93,253	\$ 93,253	\$ 70,230	\$ (23,023)
Interest	6,000	6,000	6,280	280
Total Revenues	99,253	99,253	76,510	(22,743)
EXPENDITURES				
Administration	364,253	364,253	73,248	291,005
Total Expenditures	364,253	364,253	73,248	291,005
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(265,000)	(265,000)	3,262	268,262
Net Changes in Fund Balances	(265,000)	(265,000)	3,262	268,262
Fund Balances - Beginning	265,000	265,000	334,899	69,899
Fund Balances - Ending	\$ 0	\$ 0	\$ 338,161	\$ 338,161

MONTGOMERY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Jail Canteen Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**MONTGOMERY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

**MONTGOMERY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

	LGEA Fund	Juvenile Justice Fund	Emergency Food and Shelter Fund	Health and Civic Center Fund	Finneran Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$	\$	\$	\$ 201,801	\$ 82,016	\$ 283,817
Total Assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 201,801</u>	<u>\$ 82,016</u>	<u>\$ 283,817</u>
FUND BALANCES						
Reserved for:						
Encumbrances	\$	\$	\$	240	\$	\$ 240
Unreserved:						
Special Revenue Funds				201,561	82,016	283,577
Total Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 201,801</u>	<u>\$ 82,016</u>	<u>\$ 283,817</u>

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MONTGOMERY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

MONTGOMERY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	LGEA Fund	Juvenile Justice Fund	Emergency Food and Shelter Fund	Health and Civic Center Fund
REVENUES				
Intergovernmental	\$ 64,535	\$	\$ 16,805	\$ 45,734
Charges for Services				17,238
Miscellaneous				85,679
Interest				1,974
Total Revenues	<u>64,535</u>	<u></u>	<u>16,805</u>	<u>150,625</u>
EXPENDITURES				
Protection to Persons and Property		28,063		
General Health and Sanitation				86,451
Social Services			16,805	
Roads	64,535			
Capital Projects				
Administration				14,290
Total Expenditures	<u>64,535</u>	<u>28,063</u>	<u>16,805</u>	<u>100,741</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u></u>	<u>(28,063)</u>	<u></u>	<u>49,884</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		28,063		
Total Other Financing Sources (Uses)		<u>28,063</u>		
Net Change in Fund Balances				49,884
Fund Balances - Beginning				151,917
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 201,801</u>

MONTGOMERY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Finneran Fund	Total Non-Major Governmental Funds
\$	\$ 127,074
	17,238
	85,679
752	2,726
752	232,717
	28,063
	86,451
	16,805
	64,535
2,763	2,763
	14,290
2,763	212,907
(2,011)	19,810
	28,063
	28,063
(2,011)	47,873
84,027	235,944
\$ 82,016	\$ 283,817

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MONTGOMERY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2004

**MONTGOMERY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)**

**MONTGOMERY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of Montgomery County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Montgomery County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Montgomery County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Montgomery County reported in Part C of this schedule.
7. The programs tested as major programs were: Small Business Administration-Clay Community Center and VA-HUD EDI Special Projects Grants
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Montgomery County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None.

REPORTABLE CONDITIONS

None.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

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MONTGOMERY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

MONTGOMERY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through Kentucky Department for Local Government:		
Community Development Block Grant		
EDI - Special Projects Grant	B-01-SP-KY-0217	\$ 429,054
EDI - Special Projects Grant (CFDA #14.246)	B-03-SP-KY-0263	<u>281,657</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 710,711</u>
<u>Small Business Administration</u>		
Clay Community Center (CFDA #59.000)	SBAHQ-010I-0055	344,000
<u>U.S. Department of Homeland Security</u>		
Passed-Through Kentucky Department of Military Affairs:		
Emergency Management Performance Grants (CFDA #97.042)	Not Available	12,808
Public Assistance Grants - June 2003 Severe Storms (CFDA #97.036)	FEMA-1475-00	35,130
State Domestic Preparedness and Equipment Support Programs - (CFDA #97.004)	Not Available	<u>86,677</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,189,326</u></u>

MONTGOMERY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Montgomery County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Montgomery County Fiscal Court provided federal awards to the following subrecipient:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
Small Business Administration - Clay Community Center	59.000	Montgomery County Community Development, Inc.	\$ 344,000
Community Development Block Grants/ Brownfield Economic Development Initiative	14.246	Montgomery County Community Development, Inc.	710,711
			<u>\$ 1,054,711</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Banford D. Wilson, Jr., Montgomery County Judge/Executive
Members of the Montgomery County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 5, 2004. Montgomery County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Montgomery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 5, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Banford D. Wilson, Jr., Montgomery County Judge/Executive
Members of the Montgomery County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Montgomery County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Montgomery County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Montgomery County's management. Our responsibility is to express an opinion on Montgomery County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montgomery County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Montgomery County's compliance with those requirements.

In our opinion, Montgomery County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Montgomery County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Montgomery County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 5, 2004

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MONTGOMERY COUNTY FISCAL COURT


For The Fiscal Year Ended June 30, 2004


Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MONTGOMERY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Montgomery County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Banford D. Wilson, Jr.
Montgomery County Judge/Executive


Forrest Brown
Montgomery County Treasurer